Finance Committee

Date: **13 March 2017**

Item: **Commercial Development Quarterly Update Report**

This paper will be considered in public

1 Summary

1.1 This paper provides an overview of TfL's Commercial Development activity.

2 Recommendation

2.1 **The Committee is asked to note the update report.**

3 Commercial Development Financial Overview

3.1 As shown in Figure 1 overleaf, year to date gross operating income is £157.8m, £6.9m (4.6 per cent) above budget and £17.9m (12.7 per cent) higher than at the same point in 2015/16. The variance to budget includes:

(a) £2.9m of additional income from the property portfolio, offset by:

(b) £4.5m of income less than budgeted from commercial media.

3.2 Year to date operating expenditure is £31.0m, £6.9m (28.8 per cent) more than budget and £2.9m (10.5 per cent) above last year. This is primarily driven by £5.2m of property development feasibility expenditure that had been budgeted as capital.

3.3 The capital account year to date sits at a net expenditure total of £10.8m compared with a budget of £97.7m. The primary drivers of this are higher than expected property sale receipts (due to timing differences against budget) combined with the release of £18.4m of property development over-programming costs and other capex underspends including:

(a) £15.8m of capital expenditure deferred until later periods on Earls Court due to the prioritisation of demolition works and the deferral of other works;

(b) £26.9m of underspend on other property development projects;

(c) £13.0m underspend due to rationalisation of programmes within Commercial Property;

(d) £8.1m underspend on retail projects; and

(e) £7.4m underspend on the commercial media capex delivery programme, as spend is deferred until later periods.

Offsetting these underspends to a degree was the unbudgeted purchase for £15m of Kingsbourne House in January 2017.

Figure 1 – Year to Date Summary

YTD Performance - P11

	YTD Actual	Prior Year	Variance to PY	% Variance	YTD Budget	Variance to Budget	% Variance	FY Forecast	FY Budget	Variance to FY Budget	% Variance
Media & Telecoms	87.1	67.2	19.9	29.7%	92.3	(5.2)	(5.6%)	102.6	112.5	(10.0)	(8.9%)
Property Income	70.7	72.8	(2.2)	(3.0%)	67.7	2.9	4.3%	83.2	85.7	(2.5)	(2.9%)
Overprogramming	0.0	(0.0)	0.0	>100%	(9.1)	9.1	(100.0%)	0.0	(18.5)	18.5	(100.0%)
Operating Income	**157.8**	**140.0**	**17.8**	**12.7%**	**150.9**	**6.9**	**4.6%**	**185.8**	**179.7**	**6.1**	**3.4%**
Operating Expenditure	(31.0)	(28.1)	(2.9)	10.5%	(24.1)	(6.9)	28.8%	(43.6)	(27.7)	(15.9)	57.3%
Net Operating Income	**126.7**	**111.9**	**14.8**	**13.2%**	**126.8**	**(0.1)**	**(0.1%)**	**142.1**	**152.0**	**(9.8)**	**(6.5%)**
Capital Investment	(26.1)	(89.9)	63.8	(70.9%)	(102.3)	76.2	(74.5%)	(49.6)	(145.8)	96.2	(66.0%)
Capital Proceeds	15.4	5.9	9.5	161.1%	4.6	10.7	232.9%	16.6	126.8	(110.2)	(86.9%)
Net Capital Income	**(10.8)**	**(84.0)**	**73.2**	**(87.2%)**	**(97.7)**	**86.9**	**(89.0%)**	**(33.0)**	**(18.9)**	**(14.0)**	**74.0%**
Total Net Income	**116.0**	**28.0**	**88.0**	**315.0%**	**29.1**	**86.9**	**298.2%**	**109.2**	**133.0**	**(23.8)**	**(17.9%)**

Variance ( ) = lower income and higher expenditure £000s

3.4 Material items impacting upon the year end total net income position are:

(a) the disposal and leaseback of 55 Broadway, which will now take place in 2017/18;

(b) a £7.8m reduction in commercial media income; and

(c) a total capital investment variance across the portfolio of £96.2m.

3.5 Full year, gross operating income is forecast to exceed budget, largely as a result of improved performance in property rent collection. This is despite a softening in advertising growth and a number of factors impacting central London property values. Operating expenditure is higher than budget primarily due to feasibility costs having been budgeted as capex. Gross capital proceeds are lower than budget due to the deferral of the disposal of 55 Broadway to 2017/18. Forecast full year capex remains below budget despite the unbudgeted acquisition of the long lease at Kingsbourne House.

4 Recent Activity

4.1 In January 2017, we completed the acquisition of a long leasehold interest at Kingsbourne House, High Holborn, for £15m, exclusive of Stamp Duty Land Tax and acquisition costs. The property comprises a fully occupied multi-let office and retail investment. The freehold is held by London Underground Limited and significant marriage value will be created by collapsing the leasehold interest.

4.2 On 2 February 2017, Knight Dragon launched the illustrative proposals for the next phase of the redevelopment of the Greenwich Peninsula where it was announced that Santiago Calatrava, who designed the World Trade Centre Transportation Hub, will be the architect. He has designed a new North Greenwich over-station development along with 800 new homes and other amenities. We are in discussions with Knight Dragon, alongside the GLA, in respect of our land.

4.3 In Property Development, the bidding period for the Landmark Court opportunity closed on 13 February 2017 and bids are currently being evaluated.

4.4 In February 2017, a development agreement was signed with Lambeth Council, to deliver 55 affordable homes and a community hall on land owned by the Council at Fenwick Estate.

4.5 Feasibility studies on the development potential of our Limmo Peninsula site in Canning Town, Newham are progressing well. The site is currently being used as a Crossrail works site and is due to be handed back by the Crossrail delivery team before the end of 2017.

4.6 A procurement strategy and documentation is being developed for the launch, in March 2017, of a competitive procurement process for the redevelopment of our land around South Kensington station. The redevelopment of this area is expected to deliver a mixed-use scheme including homes and new and refurbished commercial space, with the ability to generate long term reoccurring revenues.

4.7 Meanwhile, on the advertising portfolio, on 13 February 2017, JCDecaux held an event to celebrate the installation of the 500th digital advertising screen on our bus shelter network. Even at half way of the full 1,000 screen programme, this is already the largest digital roll-out in the world.

4.8 We have, however, received nine complaints relating to the recent installation of a digital advertising screen on the A3. The complaints focus mainly on safety aspects regarding the impact on road users and pedestrians, as well as the brightness of the screens. A full review has been carried out in conjunction with Surface Transport. We are confident that the screens are safe and meet all legal and policy requirements. We have however reduced the brightness of the screens and installed permanent fencing that improves visibility for both drivers and pedestrians on the exit slip roads.

List of appendices to this report:
None

List of Background Papers:
None

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